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DISTRIBUTION OF FINANCIAL ACCUMULATIONS OF
STATE ENTERPRISES IN CHINA

By N. Obolenskiy

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DISTRIBUTION OF FINANCIAL ACCUMULATIONS OF STATE ENTERPRISES IN CHINA

[Following is the translation of an article by N. Obolenskiy in Finansy SSR, No. 4, Moscow, 1961, pages 70-76.]

The Chinese people, under the guidance of the Communist Party, are successfully surmounting the century long economic backwardness of the country. A powerful modern industry is being created, and the socialist relationships have become firmly established in the village. The socialist system of production preempts all branches of the national economy. National socialist property occupies a dominant position in industry, transportation, trade and procurement. The standard of living of the people is steadily rising and the cultural revolution is being conducted on a wide front.

The State Budget of China is a vivid generalized expression of the successful building of socialism. The rapid tempos of development of all the branches of the national economy assure its steady expansion, which is evident from the following data:

Year	Revenues * (million yuan)	Expansion in %	Expenditures (million yuan)	Expansion in %
1950	6,519	100.0	6,808	100
1952	17,360	269.4	16,787	246.6
1957	31,019	475.8	29,029	426.4
1958	41,863	642.2	40,964	601.7
1959	54,164	830.9	52,771	775.1
1960**	70,020	1,074.1	70,020	1,028.5

*Without transferable budgetary balances.

**According to the established budget.

The social economic structure of the state budgetary revenues and expenditures underwent a radical change, which was brought about by the accelerated tempos in the expansion of the national product and the national income, the expansion of socialist production relationships as well as the development and perfection of national property.

At the present time the receipts from the state sector perform a decisive role in the revenue portion of the budget. In 1950 all the payments made by the state enterprises accounted for 31.1% of the total budgetary revenues, whereas in 1958 their share increased to 83.9%, and on the basis of the plan for 1960 they reached 93%. The profit taxes and payments according to the unified industrial-trade tax in 1959 amounted to 83% of the overall revenues of the budget, and in 1960 they accounted for no less than 86%.

The significance of the state budget as a source of financial support for the expanded socialist production increased considerably. In 1950 the expenditures in national economy and social cultural measures did not exceed 36.6% whereas in 1958 the share of expenditures for that purpose, including the allotment for consolidating the credit resources of the People's Bank, increased to 78.7%. In 1960 almost 82% of all the funds available to the state budget were channeled into the national economy and the social cultural measures.

Appropriations for capital investments account for a large share of the state budgetary expenditures; during the First Five Year Plan 49.3 billion yuan or 37% of all budgetary expenditures, were spent for that purpose, in 1958-1959--48.1 billion yuan, or almost 52% of overall expenditures made during those years by the budget.* At the same time expenditures for administration and defense of the country decreased sharply; their share in the state budget decreased from 60.8% in 1950 to 12.7% in 1960.

At the same time the net profit (supplementary product) created in the state sector is the basis of the state budget of China and is a decisive and a steadily increasing source for financing the expanded socialist production. Net profit assumes the following forms: profit, unified industrial-trade tax, and a local supplement to that tax. The major part of the profit is paid into the state budget; the balance is used by the enterprise for the satisfaction of certain requirements.

The unified industrial-trade tax is a centralized source of net profit for the state, i.e. that part of it which is fully concentrated in the hands of the government to be used for national needs. The local supplement to the unified industrial-trade tax, which may be imposed by the local governmental organs in amounts not exceeding 1% of the total tax does not differ from the net centralized profit. The difference consists of the fact that such funds are used outside of the budget for the satisfaction of local needs in the sphere of

*In China capital investments, stipulated by the state plan for the development of the national economy, are fully covered by budgetary appropriations.

economic and cultural construction.

The difference in the form of distribution of the pure income does not alter its social-economic content as the cost of a product created by supplementary labor for society, whose size depends on the growth of production, product sales, and a decrease in its cost of production.

The expanding net profits of the state industrial enterprises, transportation and communication, trade and procurement, as well as of the other branches of the national economy are characterized by the following data:*

Year	Overall sum (billion yuan)	Expansion in %	Revenue			Unified industrial-trade tax		
			Amount (billion yuan)	Expansion in %	Share of overall sum, %	Amount (billion yuan)	Expansion in %	Share of overall sum, %
1957	21.43	100.0	12.29	100.0	57.4	9.14	100.0	42.6
1958	34.96	163.1	22.82	185.7	65.3	12.14	132.8	34.7
1959	47.83	223.2	33.10	269.3	69.2	14.73	161.1	30.8
1960 (plan)	63.96	298.5	45.71	371.9	71.5	18.25	199.7	28.5

The share of the unified industrial-trade tax with consideration for the profit by the People's Bank in the overall net profit in 1957 amounted to 40.7%, in 1959--28.8% and according to the plan for 1960--26.4%.

The rapidly growing net profit of the state enterprises as a whole and the relationship among the forms of its distribution are conditioned on the one hand by the growth of the quantitative indices and their reactions and the decrease in the withholdings in production and circulation, and on the other hand, by the financial-economic peculiarities of the inter-relationships of the enterprises and the state. The gross industrial production increased 2.2 times in 1959 by comparison with 1957, cargo shipments by railroad increased almost twofold, the retail trade turnover--almost by one-third and so on. The profitability of the machine building and the coal industry, of the state trading and other branches increased during those years.

The peculiarity of the financial-economic inter-relationships of the enterprises, which are functioning on the basis of economic

*Excluding the profit of the People's Bank; the unified industrial-trade tax includes the local supplement.

accountability, with the state consists of the fact that almost all the income is placed at its disposal. All of the means for the expansion of production are provided by the government (capital investments, operational expenses, turnover funds). Starting with 1959 all the needs for permanently and temporarily required turnover funds for industry, trade and certain other branches are provided by bank credit with the payment of interest within the established limits. In connection with that the profits of the People's Bank increased by 3.4 times in 1959 as compared with 1957.

The system of taxation in China was created and perfected in accordance with the political economic tasks of the transition period, the principal one of which was the emphasized development of the state sector and the constant transformation of the non-socialist sector of the economy. Soon after the formation of the Chinese People's Republic--in January of 1950--the "Basic Positions Pertaining to the Conduct of the Universal State Tax Policy" were established. In place of the numerous and burdensome taxes that were in force during the period of the reactionary Kuomintang domination, and the various temporary systems of levying taxes introduced by the local organs of the liberated areas, 14 nationwide taxes were established: the commodity and industrial trade taxes, the stamp taxes, taxes on deposit interest, tax on certain types of consumer services, tax on buildings, on land, the inheritance tax, tax on commercial transactions, tax on cattle slaughtering, the salt tax, customs duty, income tax on wages and fees and a tax on the right to use the means of transportation.*

During subsequent years the system of taxation was subjected to further perfection; the system was still, however, based on a principle of "numerous taxes and many levies." This complex system was used to regulate the financial accumulations of the enterprises in all the social economic sectors. It was characterized by numerous tax payments, many taxable items, a complicated method of receiving the taxes, a lack of coordination in prices, which were used as a basis for computing the taxable turnover and profits along with a comparatively insignificant regulation of accumulations. During a certain stage of the transition period such a system corresponded to the financial-economic relations under conditions inherent in an economy having many facets and a rather significant share of petty commodity production which existed at that time.

The successful accomplishment of socialist transformations in industry, trade and other branches, accompanied by a rapid growth and perfection of a national state property, indicated that the existing tax system is not a sufficiently effective factor for the consolidation of economic accountability and a mobilization of the accumulations made by the state enterprises under the budget. The necessity to

*In April of 1950 the Government Administrative Council established that income tax on wages and fees as well as the inheritance tax will not be levied temporarily; these taxes are not being levied to date.

simplify and unify them arose as well as the need to create a universal system for the payment of taxes by the enterprises and to review the inter-relationship between the taxable and non-taxable methods of distributing the accumulations, keeping in mind that the function of the taxation system is to give the government the major portion of the net profit of the enterprises.

The first part of the task--the simplification and unification of the system of taxation was resolved in September of 1958 when the draft regarding the unified industrial-trade tax was adopted. This tax unifies: the commodity tax, the commodity turnover tax, the stamp tax, tax rates for the taxation of the turnover of finished products, of commodities and the receipts from non-commodity services are determined on bases established on the amalgamation of four previously levied taxes; taxes were lumped into a single payment and levy on the turnover in the sale of commodities and the extension of non-commodity services.

The alteration of the tax system somewhat decreased the significance of the tax method of distributing net profit of the state enterprises, even though with its aid a certain portion of the net profit from all branches is distributed, that from the heavy and light industries, railroad transportation, etc. A decrease in the significance of the tax method of distribution was conditioned by the more rapid tempos in the growth of production and the sale of the products of heavy industry that are taxed to a lesser degree without a change in the rates of the unified industrial-trade tax. At the machine building enterprises under central jurisdiction the sale of finished products increased 3.25 times in 1959 as compared with 1957; the profitableness increased correspondingly to 47.5% as compared with 39.1%. Profitableness at the enterprises of the coal industry under central jurisdiction amounted to 45.8% in 1959 as compared with 10.6% in 1957, with a consideration of the rise of wholesale prices, and at the enterprises of the Ministry of Light Industry it rose to 76.8% as compared with 56.7%.

At the present time experience is being gained in the application of the new system of taxation for its further perfection, including an change in the level of tax rates.

The profit of state enterprises, which in 1959 were transferred to the system of economic accountability, was divided into two parts: 1) deductions of up to 3.5% from the planned profit and 40% of excess profits, which was left at the disposal of the enterprise after they completed the state plan; premium and social-welfare funds for the enterprises were formed on the basis of the deductions; 2) the other part of the profit after deductions from the planned and profit in excess of the plan and the settlement of plan losses was paid into the state budget in its entirety.

The financial-economic inter-relationships between the enterprises and the state which were formed, where almost all of the profits were paid into the budget, and the expenditures for the expansion of

production was financed by the budget, were basically conditioned by the need to concentrate the financial resources in the hands of the government for their centralized expenditure principally for new construction and the realization of other tasks associated with the industrialization of the country. The system of "centralization of revenues and expenditures" under which the budget receives not only the profits, with the exception of the deductions for premium funds, but the amortization fund in part, as well, designated for capital construction, and the budget finances literally all the measures associated with the development of production, failed to create the conditions necessary for the enterprises to manifest serious concern for the accumulations; it hindered consolidation of the system of economic accountability.

A characteristic peculiarity of the existing order in the application of the tax and non-tax forms of distributing net profits consists of the fact that the payment of a unified industrial-trade tax and the payment of profits into the budget is not attended by the utilization of funds belonging to enterprises or to economic organizations or of borrowed funds of those organizations for that purpose. Quite on the contrary, inasmuch as the tax is paid and the profits are paid after the actual realization of the accumulations, the enterprises and organizations develop certain stable liabilities composed of funds that are subject to release to the government. Up to 80% of the planned profits of an enterprise must be paid in before the 25th of a given month, and the balance must be paid before the 8th of the following month. State trading organizations and certain others make payments into the budget on the basis of actual profit for the month by the 15th or the 20th of the following month.

The people's provincial committees, the autonomous regions and the cities under central jurisdiction and the corresponding financial organs are given rather comprehensive powers to meet the state requirements for payments into the budget with the consideration of local conditions: to establish and to change the dates for payment depending on the amount of the payment and the condition of economic activity; to completely or partially exempt the turnover from sales of certain commodities and certain types of non-commodity services depending on profitability and to change the method of payment.

In order to achieve a more comprehensive development of initiative and activity of the enterprises in their struggle for the increase of production, the observance of economic conditions, and for the consolidation of economic accountability, a system of deductions was established in 1958 where a portion of the sales profit is "left" at the disposal of the enterprises for use at their own discretion for certain purposes.

The extent of the deductions from profits, established for a five year period, were determined on a differentiated basis for enterprises under the various ministries and departments based on the utilization of the following funds during the First Five Year Plan (1953-1957): budgetary appropriations for technical-organizational

measures, the assimilation of new types of production, measures for the protection of labor and safety techniques, the acquisition of petty basic funds; deductions in the established amounts for premiums and deductions from profits in excess of the plan. The deductions from profits were established in the following amounts: for enterprises of the heavy industry--from 7.50% (the Ministry of the Wood Working Industry) to 28.08% (Ministry of Building Materials); for the light industry from 8.33% (Ministry of the Textile Industry) to 10.18% (Ministry of Light Industry); for water resources and agriculture--from 25% to 50%; transportation and communication from 6.41% (Ministry of Railroad Transportation) to 50% (Civil Aviation Administration); for the enterprises under the Ministries of Trade and Foreign Trade--3.07% and 3.53%.

In accordance with the principle of utilizing the major portion of the funds for production with a concurrent concern for the welfare of the industrial professional and office workers it was established that the deductions from the profits are spent for the following purposes.

(a) For the four types of expenditures that have to be made by the enterprises, which include expenditures for the acquisition of new basic means * for the conduct of technical-organizational measures, for the assimilation of new types of products, measures for the protection of labor and for the safety measures as well as for the acquisition of miscellaneous inventory and for the construction of simplified warehouses for the trading organizations.

(b) For the settlement of the gap in turnover funds.

(c) For the financing of capital investments.

(d) For prizes in socialist competitions and for other prizes that are not included in the wage fund, as well as for expenses associated with the welfare and assistance funds for the workers and employees, who are in a difficult material position. The expenditures for these measures must not exceed 5% of the wage fund of a given enterprise.

The deductions from profit may be used for administrative-management and other non-productive expenditures.

The Government Council KNR (Kitayskaya Narodnaya Respublika--People's Republic of China) also adopted other decisions that principally regulated the method of using the deductions from the profit: the enterprises and ministries must compile a plan showing the receipt and utilization of deductions from profits, which in summarized form is presented by the appropriate branch ministries to the Ministry of Finances for inclusion into the state budget; deductions that were not spent during the current year are left with the enterprises for further utilization; when the indices established by the government are not fulfilled by the enterprises the amounts of the deductions for expenditures pertaining to the matter of raising the welfare of the

*Basic means in China include equipment, instruments and other material valuables that function for not less than a year, and cost 500 or more yuan.

workers and employees must be decreased accordingly. The annual plan and the report pertaining to a rise in the welfare of the workers and employees and of the premium must be adopted at meetings of the representatives of the workers and employees or at other appropriate meetings; the deductions from profits channelled into capital production must be released to the Construction Bank and spent only under its control, and the basic funds originated on the basis of these sums are included into the basic funds of the enterprise, and the amortization fund is added to it; the amount of the deductions from profits may change in connection with material changes in prices, tax rates or other objective reasons; the ministries and central departments may redistribute the deduction from profits among the enterprises and centralize a portion of those funds at their disposal for further utilization.

The deductions are usually made in full on a monthly basis within the established amounts according to the profit actually received for the expired periods from the beginning of the year; final accounting is made on the basis of profits according to the annual report with a full accounting of the deducted amount in the report for the corresponding year.

All the circumstances relating to the deductions from profit pertained to the enterprises and economic organizations under central jurisdiction. As far as the enterprises and economic organizations under local jurisdiction are concerned, the right to resolve the problem pertaining to the amount and method of the deductions was delegated to the People's Committees of the appropriate provinces, autonomous regions and cities under central jurisdiction. On the whole a method of deductions from profits for the enterprises and economic organizations of local jurisdiction was established analogous to the method adopted for the enterprises under central jurisdiction, with, however, difference that in certain cases smaller deductions were adopted, and the enterprises and branch organs were afforded more freedom in spending the funds.

As a result of the application of the new method of deductions from profit, starting with 1958 a significant portion of the profit remains at the disposal of the economy--on the whole slightly higher than 12%, including industry--over 15%, trade and procurement--almost 8%.

Deductions from profit are characterized by the following data:

Year	Total		Including			
	Sum (billion yuan)	Increase in %	Industry Sum (billion yuan)	Increase in %	Trade and Procurement Sum (billion yuan)	Increase in %
1958	2,970	100.0	2,181	100.0	443	100.0
1959	3,999	134.6	2,924	134.1	579	130.7
1960					753	170.0
(plan)	5,666	190.8	4,250	194.9		

The major portion of those funds is channeled into capital investment connected with the acquisition of equipment, the expansion and reconstruction of the operating enterprises and the construction of new projects. Expenditures for those purposes are made in addition to the provisions of the state plan of capital investments and the appropriations established by the state budget on the basis of plans, adopted by the ministries and branch organs of the provinces, autonomous regions and cities under central jurisdiction, as well as by the enterprises themselves.

The practice of establishing and utilizing the deductions from profit along with the rapid development of a number of branches called for some further refinement of the existing order. In order to assure a more efficient utilization of the material, labor and financial resources, to be able to concentrate more forces and funds on the task of fulfilling the state plans and especially for the building of most important projects, it was established at the beginning of 1960 that capital investments based on the deductions from profit may be accomplished after permission is obtained from the state planning organ. In that manner these funds will be used with an even greater effect and rationality, inasmuch as capital construction on that basis must be included into the national economic plans and in the plans of the local People's Committees with the establishment of expenditures in above-limit and below-limit construction in the proper order.

Starting with 1960 deductions are included into the summarized financial plans of the provinces, autonomous regions, cities under central jurisdiction and of the country for a unified active balancing of both the budgetary and non-budgetary financial resources.

The portion of the profits that are left in the economy, their use mostly for capital construction and other productive expenditures signifies that the enterprises and the economic organizations settle not only production expenses and turnover expenses, but also partially satisfy their needs in funds for expanding their basic activities on the basis of their profits and on the basis of receipts from the sale of products and from services.

The perfection of methods regulating the distribution and utilization of the accumulations of the state enterprises and economic organizations and the financial economic relationships between the enterprises and the economic organs with the government are designed to consolidate the principles of economic accountability and the economic regime.